RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

P.O. Box 1759, La Jolla, California 92038
36 Letters per year — $150 Annually
Registered with the Securities and Exchange Commission

March 18, 1977 **LETTER 692**

Mar. 4, DJIA 953.46; PTI 831; A-D Ratio –19.68
Mar. 11, DJIA 947.72; PTI 832; A-D Ratio –19.69

THE PUZZLE: The last Letter dealt with *Elliott*. This one deals with the *Kondratieff* cycle. I believe these two Letters, 691 and 692, will prove to be the most important of any I have written since the "Special Report" of December, 1974 (which was written at the bear market bottom). The hardest thing to do in this business, and the most important, is to make some kind of ***long-term sense*** out of it. Obviously, I can't prove it, but I do think that Letters 691 and 692 do make sense out of the big picture.

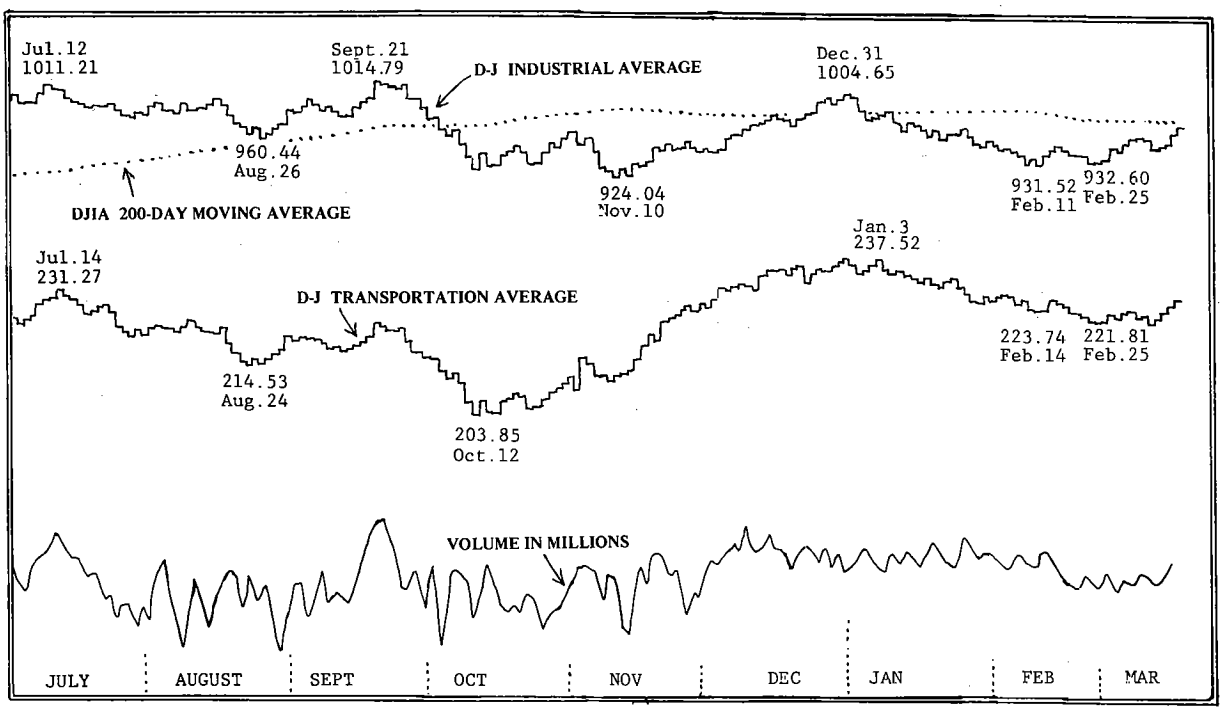
The skeptic can say, "Look, Russell, I don't want to make sense out of Wall Street, I just want to beat it, I want to make money." I've known a lot of people with that attitude, and off-hand, I can't think of one of them who has come away with more money than he has lost. If you are not interested in the great tides of the markets then obviously you are not going to position yourself with those tides. If you're not positioned with the tide (the primary trend), then you're on your way to what might politely be termed "the big wipe-out."

Wall Street is a strange and exotic place. Some of the toughest, most practical men in the world spend their waking hours trying to figure it out. And some of the most professorial, theoretical thinkers in the nation burn the midnight oil in an attempt to put the Wall Street puzzle together. I try to be practical and I also try to be theoretical. I add my own intuition, a tiny bit of artistry, then I hope for a generous portion of luck. The end product is offered here. But I'll make one admission. Nothing gives me greater satisfaction than being right on the market—particularly the big picture.

THE MARKET: Important lows were recorded by the D-J Averages during late-1976. At that time Transports sank to a low of 203.85 (Oct. 12), while Industrials continued down to a low of 924.04 (Nov. 10). Following those lows a new advance got underway. By January 3 Transports had climbed to a bull market high of 237.52. Industrials refused to confirm, and the Averages headed down again. All of which brings us to the present.

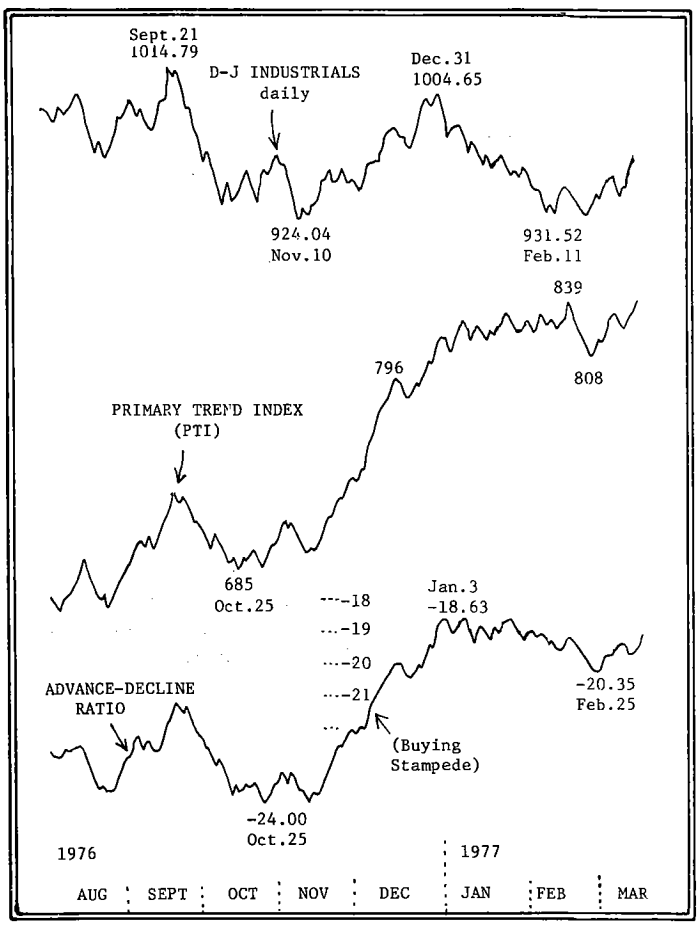
During the first quarter of 1977 the market has had a lot to contend with. It had to deal with the bitterest cold wave in 70 years. It had to deal with the worst drought in Western US history. It has had to absorb forecasts of coming "runaway inflation and rising interest rates." And it has had to face rumors of bank failures due to massive and idiotic loans to the less-developed countries. On top of this, Wall Street has been confronted by listless economic figures and careening US deficits.

But my opinion has been that at the October-November lows the Averages **discounted about all of the dismal news** we have been hearing. I noted in the last few Letters that the Averages seem to be taking a firm stand. Furthermore, in the last Letter I took it as a sign of strength that the Industrials and Transports **did not go back to test their extreme lows** of 924.04 and 203.85, the October-November lows. Rather, they formed two **higher bases** in mid-February at **931.52 for Industrials, 221.81 for Transports** (see page 1 chart).



Volume dried up drastically for almost three weeks as the Averages hovered listlessly above the mid-February lows. As a rule, when the Averages back and fill above preceding lows and volume contracts, it is a sign of the **absence of selling pressure.** For three weeks the Industrials and Transports had every chance to plunge below the February lows and even below the lows of last year. They didn't budge. That action was obviously "telling us something," something bullish.

On Monday, March 14, the market suddenly sprang to life with Industrials up 10 points and all other Averages and indicators moving up in gear. The strength spread into Tuesday to the tune of 7 million shares of upside volume the first hour (more on the current market in the "Late Notes" section).



BREADTH' INDICATORS: The action of the Primary Trend Index (PTI) continues to fascinate me. In case you think the PTI has a built-in "upward bias," study the long-term chart of this index in Letter 690, page 3. The fact is that the PTI collapsed during the entire bear market right through to the late-1974 lows.

Since its December 23, 1974 bear market low, the PTI has acted in just the opposite way. ***It has never wanted to go down.*** I discussed the remarkable and persistent power of the PTI in the last Letter, stating then that the PTI was within 8 points of its bull market high. With the rally of Monday, March 14 (see chart) the PTI moved to within 1 point of its high. Now the PTI has moved into new high territory for the bull market! The message of this important indicator is clear enough. There is a stubborn strength in this market which will not be denied. Through consolidations, through hesitations, through declines and even through non-confirmations, the PTI has refused to decline to any significant degree. And now, at the first visible or obvious sign of strength, the PTI has pushed to a new bull market high.

Thus this indicator is behaving the way it should, acting as a *broad gauge of the primary trend.* The majority of its composites have continued to rise, and thus the PTI has pushed relentlessly higher. The more I work with the PTI, the more I respect its "intelligence."

The *Advance-Decline Ratio*, which reflects that advancing or declining tendency of the majority of NYSE issues, has continued to perform well. When the "buying stampede" of October, 1976 to January, 1977 (see chart) ended, we might have expected a good downside correction on the A-D ratio. Actually, what happened was that the A-D lost a total of only 1.62 points from its January 3, 1977 bull market peak to its recent February 25 low. This was a **strong** performance. Incredibly, the A-D is now less than 1 point from its bull market high again. And it is even possible that a second buying stampede could be starting (history shows that buying stampedes often come in clusters of two's and three's).

On a running 52-week basis as per *M/G Financial* statistics, there have only been three weeks since early 1976 when there were more lows than highs on a weekly basis. There have been no weeks in 1977 that saw more lows than highs. That's pretty good action and again suggests the absence of important selling pressure.

The odd-lot transactions are now providing a bullish undertone for this market with daily selling and buying ratios running two to one in favor of **selling.** Thus the odd-lot public has grown bored, skeptical and dissatisfied. For whatever reason, they have stepped up their selling activities over the past few weeks and that constitutes a plus for Wall Street.

Conclusion: The technical underpinnings of the market look bullish. Remember, skepticism in a primary bull market represents sentiment against the primary trend, and should therefore be considered bullish. Skepticism in a bear market represents sentiment in harmony with the bear trend and is therefore justified. I feel that entirely **too much skepticism** has been built up in this bull market, skepticism brought on by the inactivity of the market itself and by the unhappy news events of the past six months. When a bull market has discounted all the bad news and the last seller has swapped his stock certificate for cash, the market is ready to move up. That's about where I think we are now.

KONDRATIEFF, PRICES, AND STOCKS: Nikolia D. Kondratieff was a Russian economist who wrote during the 1920's. Kondratieff worked up a thesis of a massive economic cycle with peaks occurring *roughly every 54 years.* He formulated his "Kondratieff Wave" cycle on the basis of his studies of wholesale prices, interest rates, wages and industrial production.

The well-known *Bank Credit Analyst* has done a good deal of work with the Kondratieff Wave studies, and one of the things they have done which is most helpful is to construct an "idealized Kondratieff Wave." I have drawn a chart, superimposing the idealized Kondratieff Wave on a series of stock averages. This series includes theoretical averages going back to the late-1700's and the D-J Industrial Average beginning with 1896. The third line on the chart is the Consumer Price Index (CPI). The CPI is also representative of the action of the Wholesale Price Index (they both tend to move together).

The first question you might ask is, "Russell, do you believe in the whole idea of the Kondratieff Wave?" My answer is that I

believe in broad swings from prosperity to depression and back, and I believe in broad swings from inflation to deflation and back. I think that the Kondratieff Wave (KW) thesis is most helpful in that it may give us perimeters for these great cycles. Certainly, Kondratieff is both logical and interesting, and as such it is worth studying.

A quick perusal of the chart suggests that the KW thesis does best in "forecasting" major changes in consumer (and wholesale) prices. These movements, in turn, undoubtedly have an effect on stock prices. In his explanation of KW, Editor Donald Storey of the *Bank Credit Analyst* notes that the bottoms of the KW cycles were accompanied by wars, the American Revolution in the late 1770's, the Mexican War in 1846, the Spanish-American War of 1897 and World War II in the 1940's. Each of these wars served to send the price of "things" skyward.

At the peaks of the KW cycle we have the following characteristics: there is a war which served to **accentuate** the rising cycle of prices. Past examples are the War of 1812, the Civil War (mid-1860's), and World War I (1914-17). Storey also notes that "...following the end of the war there is a 'peak recession' which is usually sharp...accompanied by a once-in-a-generation run-up in commodity prices." Certainly the Vietnam War and the recent explosion in commodity prices fits in here. Next comes a fairly good recovery in business, and then a plateau which may last 7-10 years. The "plateau" is usually accompanied by a feeling of complacency on the part of the public and a big rise in the stock market. The plateau period leads the way to the next major depression.

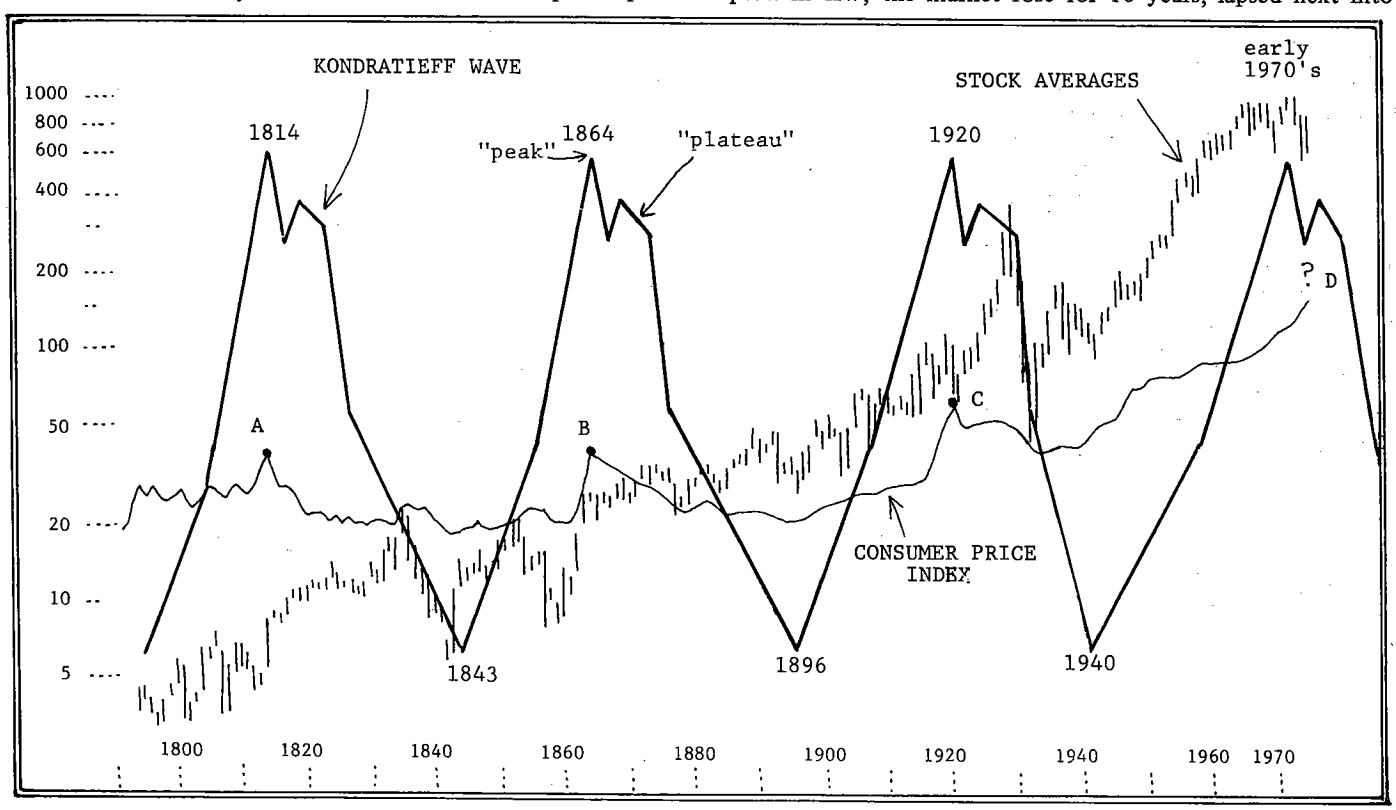
All of this seems to describe with an almost eerie accuracy the events of recent years. If we want to carry the similarities as far as we can, I would say that we are probably in the plateau area now, an era which should be comparable to the 1920's or the period after the Civil War. A comparison of the two periods immediately brings to my mind the fact that during the 1920's it was widely held that a "New Era" had arrived and that *stocks* could rise to the sky. In the current era it is widely-held that *debt* can rise to the sky. It took the entire 1921-29 span to prove the falsehood of the stock thesis. We don't know how many years it may take to disprove the debt thesis.

The next question subscribers may ask is, "All right, you loaded the Elliott Wave Principle on us last week, and this week we have to grapple with Kondratieff. Why, Russell, what are you trying to prove?" My answer is that the KW studies seem to fit in with both my Dow Theory and my Elliott Wave studies. I am also including the KW work in this report because the conclusions seem to fly in the face of the current assumptions about "continued inflation" and because KW and Elliott may explain a good deal about what lies ahead.

Turning to the chart, note that a simple projection of the 54 year cycle from the 1920 peak points to the years around 1974 as the next top. What I find most fascinating about this chart is the position of three black dots that I have drawn on each of the Consumer Price Index peaks (labelled A,B,C on the chart). The peaks in the CPI certainly seem to **coincide** with the peak in the KW cycle. The big question, then, is will history repeat and will the KW cycle be correct again? If so, then we can expect that a fourth peak for the CPI to be materializing about **now** at "D" on the chart. Obviously, this is **not a pin-point study, but the implications of the KW thesis are momentous.**

What are the implications? Well, here we have everyone predicting more inflation, higher interest rates, lower stock prices. But if the KW studies are correct, we are about at the *end of an inflationary cycle, and the next very long-term move should be down*! If prices go down, if inflation subsides, then interest rates on a long-term basis should decline and bond prices should go up. Furthermore, gold should **not** be a big mover on the upside if the KW thesis is correct. In fact, what we are seeing in gold now could be merely an upward reaction ("a mini bull market,"perhaps), following the 1974-76 gold collapse.

But how about the stock market during the down-cycle of the KW? And here is another fascinating bit of history. The fact is that there have been some big bull markets during the downward KW cycles, and this is what we see on the chart. For instance, following the 1814 peak in the KW, the stock market embarked on a giant bull swing that carried to 1835. Following the 1864 peak in KW, the market rose for 10 years, lapsed next into a



three-year bear market (1875-77), and then roared up to a peak in 1889.

I don't have to go into detail about the action following the 1920 KW peak, except to say that this was followed by the biggest and probably most speculative bull markets in Wall Street annals. The ensuing bear market hit bottom in 1932. Then the market turned up and worked generally higher, even though the KW continued down to an eventual bottom in 1940.

What can we say of the whole KW, stock market, commodity, consumer and wholesale price thesis at this time? For one thing, the commodity picture is not all one-way even now. Even while lead, tin, cocoa and tea have boomed, for instance, zinc, sugar and copper have slumped. Furthermore, what inflation we have today is not of the demand-type, brought on by too many consumers chasing too few items with too much money. It is the cost-push kind of inflation with wages rising, corporations boosting their prices to cover wage and other cost increases, and people passively paying for the higher costs. It is what I call a "tenuous" type of inflation which could end rather quickly, particularly if the consumer decides that he can and must cut his living expenses. Furthermore, with the energy crisis gripping the nation and the water crisis in the West, it may be that people will simply not be able to spend as much as they would like.

Next, it is interesting to note that we have been moving into what could be a climax in "store of value" buying. For months I have been writing about the sky-rocketing prices of stamps, coins, real estate, antique autos, gems, etc. The fact is that the money that "should" have been going into instruments of capital formation and production has been pouring into the various stores of value. BUT–what if KW proves to be correct, what if people see inflation leveling off and then subsiding? What if people start switching their earnings and savings back into bonds, stocks, business enterprises, the means of production? Of course this "change of attitudes" could start as a slow, subtle, transfer of assets. But the implications would be bullish for the markets, the economy and the nation.

This same syndrome could be the reason why there have been so many big bull movements in the past after the KW has topped out (i.e., topped out along with consumer and wholesale prices). The end of inflation means that money can "come out of hiding," that it can leave the static safety of the stores of value and go back into the means of production.

All right, admittedly I have made a constructive if not downright bullish case out of the Kondratieff Wave theory. But if my analysis is correct, we could be witnessing the contrary opinion shocker of the decade. If I'm correct, then all the bears and super-bears are going to have one long wait before the current bull market on Wall Street collapses (and I'm not talking about corrections). In fact, the KW thesis supports the idea that we could be in a big Elliott bull market in stocks, and perhaps only in the early part of the advancing Wave III (a possibility outlined in the last report). The KW concept might also suggest why my Primary Trend Index keeps inching up, why it simply refuses to fall apart despite the ragged surface-appearance of the market.

Finally, if we are at a KW cycle peak (or even past the peak), that might explain the general confusion and consternation which now seems to have gripped investors. If it is true that we are at the crossroads between inflation and deflation, if it is true that the price of things has seen its upward climax and the great leveling-off has started, then this new phenomenon in itself would be capable of creating a great feeling of confusion among investors. Add to this the energy crisis and the water shortage, two factors which will probably result in a forced cut-back of spending by consumers, and we have a situation which the market may take months and months to digest.

Conclusion: My Kondratieff studies suggest that we are at or more probably **past** the peak of the Kondratieff cycle. This would put us in the "plateau period," which, if history is any guide, could last around seven years or so (although it's possible that the plateau period started around 1974). Very few people realize it, but the plateau periods of the past have given birth to some whopping bull markets. The plateau periods are characterized by mixed inflationary-deflation pressures, prior to a deflationary collapse. But the plateaus can be bullish for the stock market. The plateau period could be accompanied by an easing of interest rates (on a **long term** basis), a downward secular pressure on gold, and a downward pressure on the price of "things" (houses, coins, stamps, antiques, objects of value). The downside pressure is brought on by the gradual ebbing of inflation and the spector of rising deflation following the long plateau period.

EQUITY VS. STORE OF VALUE: In Letter 689 under the section entitled "Crossroads" I warned of the ominous movement away from means of production and towards static stores of value. In view of my Kondratieff conclusions, I want to continue that discussion, I also want to continue with it because I have noted over the past month an actual intensification of the move into stores of value (such as stamps, coins, houses, classic cars, etc.).

For instance, I read in our local La Jolla newspaper where the average price of 29 single-family houses sold in La Jolla in December was $142,000, up from an average price in December, 1975 of $111,000 and up from 1974's $97,000! Now I know that La Jolla is a nice sea coast town in Southern California, but these prices are ridiculous. Obviously, people are throwing their money in here because they think La Jolla homes represent a great store of value.

SAN DIEGO DAILY TRANSCRIPT Staff Writer

With the single-family home market reaching the point where buyers camp out at development sites, to get a lottery number so they can bid on a new home, and developers starting to limit sales "one to a customer," it was bound to happen — real estate syndicates are now in the market for single-family homes.

"Its the hottest thing beginning to sweep the country," Sanford R. Goodkin, head of his own Del Mar-based real estate research and consulting firm.

Goodkin said the syndication trend is spreading quickly to Southern California and shows that a tremendous number of people are willing to invest in anything. The problem, he added, is that there are not enough single-family units to go around.

This news clip from the San Diego Transcript gives us some idea of the "mania" which is now infecting the housing market. Personally, I consider the whole phenomenon to be unhealthy at best and downright dangerous at worst. It involves huge chunks of speculative money frantically searching for a place to land. It's a flight from paper, and it's building to a crescendo.

The store of value concept is not lost on economist S. Jay Levy, who, in his latest report, notes that the average price of a single family dwelling last year was about $48,000 while the market for economy houses in the $30,000 range was almost non-existent. "One is justified in wondering," he continues, "why the demand for $48,000 houses has been so strong. The mortgage payments on most of these buildings is at least $4,000 annually. Taxes, insurance, maintenance, and fuel may bring the cost of housing up to $7,000, about half the income of a typical family."

Then S. Jay zero's in on it. "Many persons, whether married or not, view the purchase of a house not only as the acquisition of shelter but also as an investment. Their houses have been the only good investments most of the nation's 44 million homeowners have made in recent years." So that's the story.

Consciously or unconsciously, Americans have been buying houses the way they used to buy stocks–with both hands. And the higher priced houses have been the best investments!

Today I received the latest issue of *Stamp Collector* magazine and I glanced over prices received from an H. R.Harmer stamp auction in NYC. I see a price of $24,000 for one piece, $65,000 for a second, $20,000 for a third, $16,000 for another. These are for blocks of 4 to 8 nineteenth century stamps, all choice but the prices are breath-taking. Who's sinking these fortunes into US postage stamps? It's amazing!

Next I study a few equities, and I am amazed at what *values* they are. Here's Allied Chemical with earnings estimated at $5.60 in 1977 with another $2.40 estimated to be coming in by 1978 from North Sea oil. This means that by 1978 Allied could be earning $8. Yet this stock (in the Dow Industrial Average) is selling at about 5.5 times estimated 1978 earnings and only 8 times this year's estimated earnings. What's wrong, why is the stock going begging?

Here's Phillips Petroleum (a blue chip) earning an estimated $6.75 for 1977 with an estimated additional $3.20 for 1978 stemming also from North Sea oil. Phillips is selling at 9 times estimated 1977 earnings and (based on 1978 estimated earnings of $10) about 6 times 1978 earnings. The market used to pay over 20 times earnings for Phillips, what's wrong with it today?

These examples of equities "going begging" could be repeated hundreds of times in issue after issue. The fact is that confidence in equities is very low now. Businessmen's confidence is very low now. Corporations (and individual businesses) are being regulated to death, they are suffocating in forms, paper work, red tape and edicts from dozens of Government agencies. I find myself wondering, in fact, if we aren't living through some sort of climax of business pessimism and gloom.

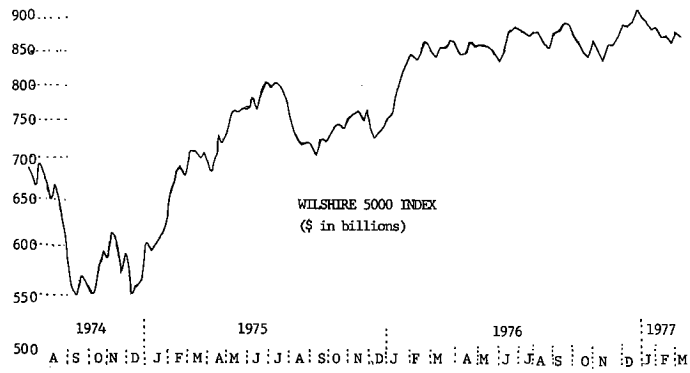
One of the fabulous and fascinating things about the stock market is that it **cuts through the lies** and the bunk like a hot knife through butter. Congress and the President can promise anything, but Wall Street weighs the talk and the action, it distills it, and it brings it all down to a matter of *price*.

History shows that President after President has ignored the stock market, but always to their sorrow. The stock market represents the assets of 26 million Americans, and when those assets move up or down $100 billion or more in a matter of a few weeks or months, it makes a difference!

The American public are not fools. They will ultimately gravitate towards values and safety, while steering away from danger. This is the third year of the economic recovery (from the 1975 business low), and price/earning ratios will normally decline as profits rise. Nevertheless, the current 9.7 P/E ratio for the D-J Industrial Average is on the low side by historical standards. Except for the single bear market year of 1974, the P/E for the Dow has **not been this low since 1953.**

That should tell us something about the prevailing sentiment and psychology of the times. It isn't that stocks are not real values today. It's that investors don't trust the prevailing attitude toward business, nor do they trust their own Government to do (and undo) what is necessary for the health of the nation.

I've said it before, and I want to repeat this. I believe the sentiment and the conditions for business are going to change **for the better.** I think we could be entering a period in which there is a reaction against debt, taxes, Government interference, and the big Washington spenders. I don't say that this change will come (as it should) through intelligent, enlightened conscious direction. It will come because *it has to come*. It will come because if it does not, the system is going to split at the seams. And I don't think people are ready to watch the whole thing "sink into the ocean" yet.



WILSHIRE INDEX: Every few months I publish a chart of the Wilshire 5000 Index. This Index is interesting because it is made up of the *dollar value* of all the stocks on the NYSE, the AMEX and all the actively traded over-the-counter shares. Thus, the Index acts as the broadest possible measure of the value of **all stocks.**

During the bear market which ended in late-1974, the Wilshire 5000 collapsed, and you can see the horrendous loss of values during the months of August and September, 1974. During the late 1975 bull market correction, the Wilshire 5000 slumped from $805 billion to $706 billion, a loss of over 13% in the value of all stocks.

But I find it particularly interesting to note that the Wilshire 5000 is now (week ending March 11) only down $36 billion from its bull market high of $916 billion recorded December 31, 1976. This is a loss at this time of about 4%.

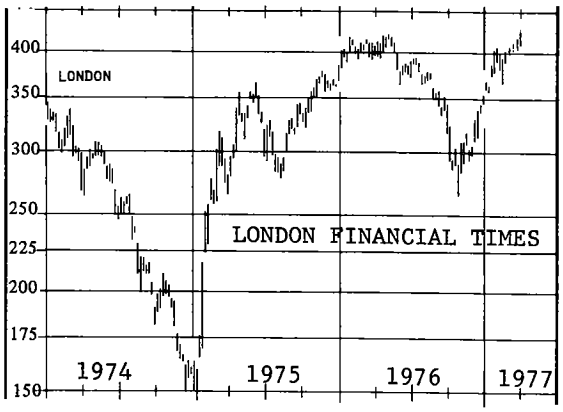
It is interesting to note that the much more drastic (percentage-wise) correction of 1975 stirred up less discouragement. The reason is that the 1975 correction came after a good rise, and the 1975 correction was over in a hurry. In contrast, the current correction began following a much smaller rise than the 1974-75 rise, and even more important, the current correction has been a dragged out, boring, extended (in time) affair. If there's anything that investors hate it's inactivity. Inactivity drives people off Wall Street and out of stocks.

It appears to me that the bears have tried their darnedest for a year to knock this bull market to its knees. True, they've hit the glamor stocks, but what that amounted to was dumping the favorites of the **last bull market.** But there's nothing unusual about that. The favorites of one bull market are almost never the favorites of the next bull market.

One of the old axioms of Wall Street is that "If the market won't go down in earnest, then it's prepared to go up in earnest." After a year of trying, with the Wilshire 5000 only 4% under its bull market high, I have to think that the market's getting ready to mount a major move on the highs. The "trigger" setting off the rise should be pulled sometime during the next few months.

ITEMS: The London market and the US market tend to move in tandem. Therefore, what London does (chart, page 6) is important to Wall Street and vice versa. In 1976 London topped out at 420 (Financial Times Average) and smashed to a low of 265. Since then London has climbed back in a recovery as spectacular as the collapse. On March 14 the London market actually pushed above the massive 1976 top at 420. That may not be a guaranteed bullish event for the US market, but it sure isn't bearish! This chart shows the dramatic London story (chart by my friend, Ian McAvity, PO Box 182, Adelaide St. Station, Toronto, Ontario, Canada M5C 2J1).

* * * *



Here's a correction for my Elliott studies in the last report. I stated in Letter 691 that Wave III could be smaller than Wave I or Wave V but it could not be smaller than both. Since Wave III (see chart on page 3 of Letter 691) was, in actuality, smaller than Wave 1, that situation should tell us something about what's coming up.

Wave III advanced the Dow a total of 219 points. Therefore, Wave V should be smaller than Wave III, and that means that any rise in the Dow (starting from the November, 1976 low of 924.04) will be less than 219 points or below Dow 1143. But there is another possibility. Any rise from here could also prove to be the second advancing wave of a huge Wave III (a Wave III which began at the 784.16 low of 1975).

We'll have to get closer in order to make a more intelligent judgment. But either way I believe that the next major wave (which could be underway now) is going to be (1) rather speculative, (2) the one that will try for the all-time high in the Dow, and (3) the one I will want subscribers to sell into when, as, and if it moves out above the bull market highs.

* * * *

Question: What about interest rates now? Won't a rising market be a forerunner of better business and higher interest rates? And wouldn't that be bearish?

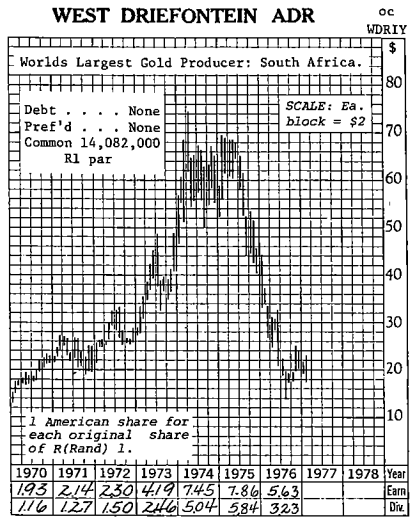
Answer: Forecasting interest rates is a very hazardous undertaking. I do everything from charting Treasury bill futures to running momentum indices on long-term bonds, all in an effort to figure out which way interest rates may go. Right now, I'm most interested by the absolute consensus to the effect that interest rates are heading up–and maybe through the roof. I distrust the "interest rate consensus." My chart of T-bill futures looks stable (Sept. futures). My chart of the Treasury 8's of '96 looks as though it is forming a bottom. If so, interest rates could hold at current levels and be rather stable for some time to come. That's something that few, very few people are expecting.

* * * *

The median US population age is rising rapidly. Since 1970, the "over-65" group has risen by 21% in the South and in the West. Meanwhile, the "under-5" group (children) is dropping. The Northeast led the nation in the 1970-77 period with a whopping 22% drop in the under-5's. This trend tells me that there will be a move towards conservatism as the median age of the US rises (older people tend to be more conservative than younger people).

LATE NOTES: The PTI hit 845 on March 15, a new bull market high. The market had a good rally, and one test is always **how well the market holds, after a rally, when volume contracts.** So far, the Averages and the A-D appear to want to hold their gains. If this "drying up–holding"action continues, we'll head higher. Just above the Dow at this point is the 200-day moving average, which stands at 972. IF the Dow can climb above that figure, and stay stubbornly above 972, it will be a very bullish indication.

The 4-week moving average (MA) of the Dow is now at 943 and turning up. The 13-week MA of the Dow is at 961 and if the Dow can hold in the "above 960 area" for the next five weeks this line will also turn up. Thus, a persistent push from here would have quite bullish implications.



GOLD: The first phase of the gold move could be over. It's true, I have not been excited about the gold rise so far, and maybe it's because of my remarks in the last Letter regarding "alternation" or maybe it's because of the remarks in this Letter about gold and Kondratieff. At any rate, I did not advise people to hold their S. African gold shares through the 1974-76 bear market. This chart of giant West Driefontein, one of the world's great gold mines tells us a pitiful story, at least so far. Those who held West Drie through the bear market on the theory that "they shall return" have been wrong, to say the least. And unless you bought West Drief near the extreme 1976 low, you haven't done very well even on a rise in gold bullion from 103 to 149. And by the way, 149 is now the magic number for bullion. Gold has halted its advance just under 149. Which means that so far it has not recouped even half its losses of the 195 to 103 bear market collapse. Above 149 Gold will look good–but first it has to get there. (Chart of West Driefontein, courtesy of Horsey, Salisbury, MD 21801.)

STOCKS: I have been advising subscribers to sit with most of the stocks and positions that have been recommended here over the past two years. I have never run this service on the basis of a "supervised list" affair, with a "buy these five stocks today" and then six months later "sell these three stocks here." Frankly, in the 19 years I have been in this business, I have seen a hell of a lot of new advisories come, and I have seen the great majority of them go. I don't think I have ever seen a "supervised list" type service survive, and the reason is that they seldom "work."

People buy stocks for different reasons, and what Joe Johnson can sit with, Mary Moody can't sleep with. Match that with the fair to average performance of the typical service's selections, and you have the perfect formula for disappointed subscribers and stock market losses. For my part, I have always insisted that subscribers know (1) what I am thinking, (2) why I am thinking it, and (3) how all of this affects our investments.

The fact is that no two investors use these Letters in the same way. One of the most successful investors I know does it mostly on his own and has told me that he is only "disturbed" if his position is directly opposite to my views. I have other subscribers who follow the Letters closely, adding only a dash here and there of their own judgments. Still others are only interested in my primary trend analysis, and they couldn't be less interested in my comments about the intermediate trend. I run this service the way I do because I personally have learned that if you aren't willing to do your own thinking about your own investments, no theory, idea, tout sheet, advisory or anything else will keep you from going broke. In other words, if you're not willing to think, you are most surely not going to be successful in the market.

NEXT MAILING: April 1st.